EUROCHAMBRES

Public Consultation

10 March 2020

EUROCHAMBRES' comments on the Draft EU ETS State Aid Guidelines

EUROCHAMBRES, the Association of European Chambers of Commerce and Industry appreciate the opportunity to comment on the Draft EU ETS State Aid guidelines. In the framework of the ETS, member states have the possibility to compensate certain industries that are exposed to international competition for electricity price increases due to CO2 cost. This option is not used by all member states, which is why there is a differentiated picture across EUROCHAMBRES membership. To minimise distortions within the single market, all member states should introduce the scheme. Furthermore, we are convinced that further decarbonisation efforts in line with the European Green Deal will lead to a higher degree of electrification in industry and therefore to a higher impact of electricity prices on the competitiveness of businesses.

The price hike of CO2-allowances in recent years has already led to increased cost pressure for the industries covered by the ETS. The combination with higher electricity cost, which cannot be passed through to customers, has a negative impact on their competitiveness and complicates decarbonisation efforts. The compensation for indirect CO2 costs is therefore an adequate instrument to prevent delocalisation of industrial installations or investments and the resulting carbon leakage and loss of jobs. Its relevance for European businesses will further grow, especially without any comparable climate-related efforts in other world regions in sight.

With these considerations in mind, the European Chambers of Commerce and Industry have a number of comments with a view to the revision of the EU ETS State Aid guidelines.

1. Covered sectors

All sectors and sub-sectors for which the indirect costs of the ETS create a carbon leakage risk should be able to benefit from indirect cost compensation. This applies in particular to "price takers" that cannot pass on their additional costs to customers.

The strongly shortened list of eligible sectors is not in line with this requirement, which is why EUROCHAMBRES urge the European Commission to extend the list based on the announced and indispensable qualitative evaluation. In particular, we are convinced that the list should be enlarged by sectors that are "price takers".

2. Aid intensity, compensation level

From our point of view, it is positive that the Commission proposes to keep the aid intensity at a stable level throughout ETS trading phase IV. In line with the State Aid guidelines on environmental protection and

ASSOCIATION OF EUROPEAN CHAMBERS OF COMMERCE AND INDUSTRY
Chamber House, Avenue des Arts, 19 A/D B - 1000 Brussels • Belgium
• Tel. +32 2 282 08 50 • Fax +32 2 230 00 38 • eurochambres@eurochambres.eu • www.eurochambres.eu

energy, this should be at a compensation level of at least 85%. For best performers this should be set at 100%, in order not to undermine the effectiveness of carbon leakage protection provisions of the ETS Directive. In this context, we endorse the possibility for member states to limit the overall burden arising from indirect CO_2 costs (GVA-cap) for installations in the most electricity-intensive sectors, with particularly high exposure, as important step to ensure carbon leakage protection.

3. Geographical zones

The calculation of the factor should be based on electricity market models in order to best reflect the actual impact of CO_2 emission costs on power prices in each market. In our opinion, the proposal to split the regions into even more zones undermines the political objective of linking national energy markets. In addition, the methodology for the definition of regional areas (1% price divergence in significant number of hours per day) does not capture the reality of energy markets where the emission pass through factor by neighbouring member states is influenced by well-developed interconnections.

4. Conditionality

Compensation for indirect CO_2 costs aims at reimbursing electricity-intensive sectors for these incurred costs. EUROCHAMBRES understand the proposal of a certain conditionality to incentivise industries to make additional efforts, however if not designed well it will undermine the primary objective, namely the prevention of carbon leakage. This is particularly relevant against the background of international competition. In addition, as long as there are electricity consumption efficiency benchmarks, Chambers see sufficient incentive for companies to increase energy efficiency of their installations.

The conditionality requirements in their current form do not reflect business reality. The options must be formulated in such a way, that different individual situations can be accounted for by allowing for sufficient flexibility.

The evaluation of a reasonable investment can only be done on a case by case basis and will depend heavily on factors that vary largely across companies and sectors. A pay-back period of 5 years for investments related to the recommendations of an energy audit, as proposed in the Draft Communication, do not reflect business reality and should be decreased. In this context, the implementation of a certified internal improvement mechanism in the framework of an energy and environment management system (e.g. EMAS) should equally be recognised.

For on-site renewable energy generation, the share of 50% coverage is simply not realistic and would represent an additional hurdle to the expansion of corporate self-generation and consumption of carbon free electricity. As for the option to conclude a carbon free power purchase agreement, they may be incompatible with the State Aid guidelines on environmental protection and energy, as long as member states deny compensation for PPAs on this basis.

Last but not least, the option to invest a share of at least 80% of the received amount in projects that reduce the emissions of the installation seems to miss the actual objective of the compensation scheme. The compensation does not represent freely available money as the aim is to offset competitive disadvantages in order to prevent carbon leakage.

EUROCHAMBRES – The Association of European Chambers of Commerce and Industry represents over 20 million enterprises in Europe – 93% of which are SMEs – through 45 members in 43 countries and a European network of 1700 regional and local Chambers.

Further information: Mr. Clemens Rosenmayr, Tel. +32 2 282 08 90, rosenmayr@eurochambres.eu
Press contact: Mrs. Karen Albuquerque, Tel. +32 2 282 08 62, albuquerque@eurochambres.eu